



**Massachusetts Bay
Transportation Authority**

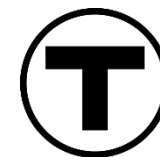
FY19 Preliminary Operating Budget

March 12, 2018



Disclaimer: Forward-looking Statements

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FY19 Preliminary Itemized Operating Budget

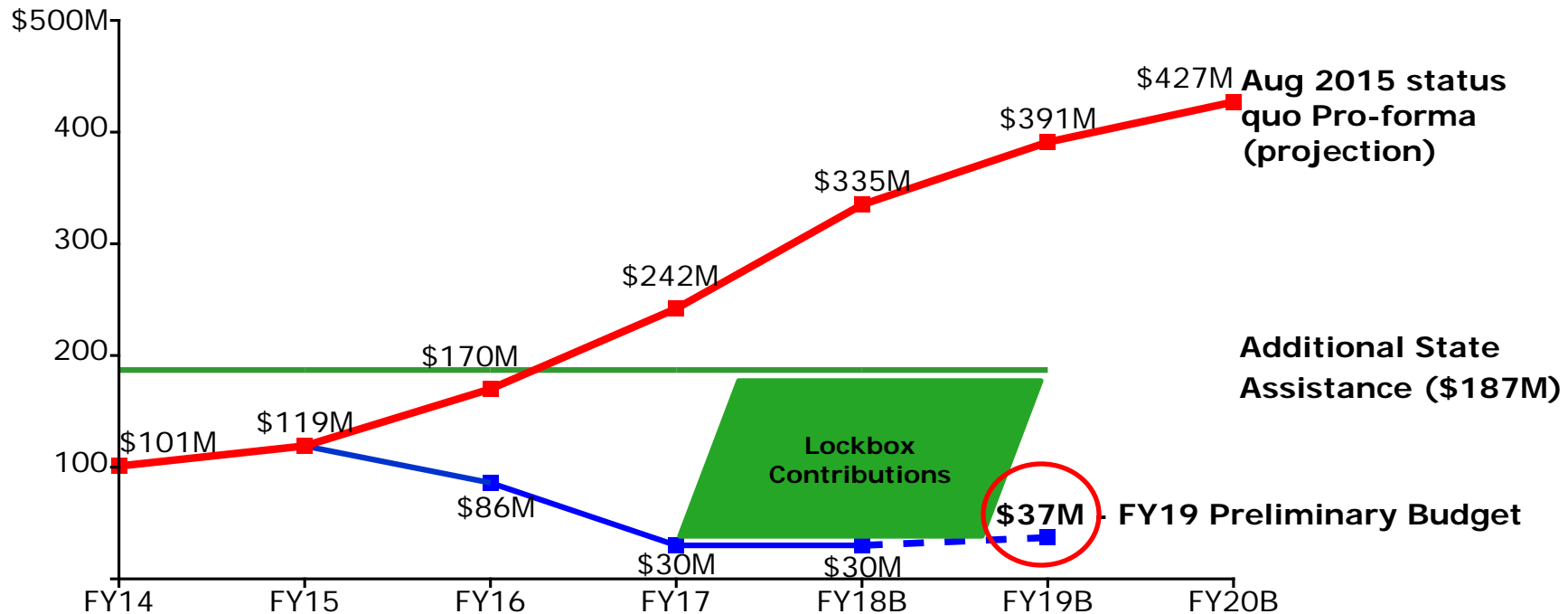
	(\$M)	FY18 BUDGET RECAST	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE
REVENUES	Operating Revenues	\$755.9	\$773.0	\$17.1	2.3%
	Non-Operating Revenues	\$1,221.1	\$1,247.8	\$26.7	2.2%
	Total Revenues	\$1,977.0	\$2,020.8	\$43.8	2.2%
EXPENSES	Wages, Benefits and Payroll Taxes	\$764.0	\$771.8	\$7.8	1.0%
	Non-Wage	\$781.5	\$789.7	\$8.2	1.0%
	Operating Expenses	\$1,545.5	\$1,561.5	\$15.0	1.0%
	Debt Service	\$462.7	\$495.9	\$33.2	7.2%
	Total Expenses	\$2,008.2	\$2,057.4	\$49.2	2.5%
Structural Deficit		(\$31.2)	(\$36.5)	\$5.3	17.0%

*Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures



FY18 deficit \$305M below projections; \$600M of cumulative savings since creation of FMCB

Structural deficit



MBTA management in process of recasting FY18-FY20.

Operating Deficit does not include Additional State Assistance received in FY16 (\$155M), FY17 (\$140.25M) or FY18 Projections (\$127M)



Agenda

1. Introduction to Preliminary Operating Budget

2. Budget Discussion Follow-up

3. FY19 Preliminary Itemized Operating Budget

4. Appendix - Path to FY19 Budget



Updated FY19 Budget Timeline

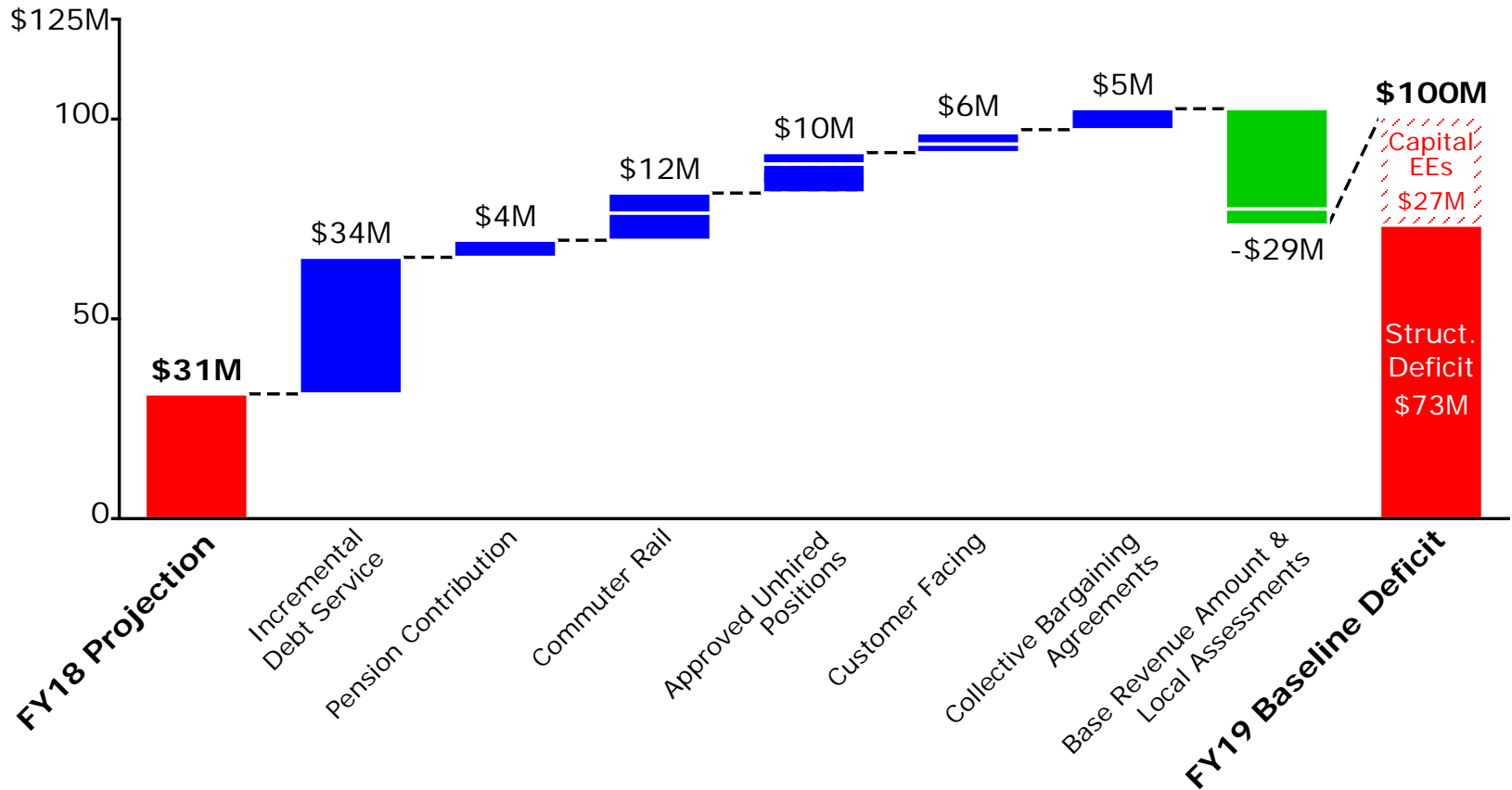
- MARCH 12:** Management to introduce FY19 Preliminary Itemized Budget to FMCB
- MARCH 19:** Scheduled FMCB vote to release FY19 Preliminary Itemized Budget to MBTA Advisory Board
- APRIL 9:** Scheduled FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board
- APRIL 15:** Statutory deadline for FMCB to approve FY19 Budget



Baseline structural deficit is \$73M after contractual expenses and statutory increases to “Dedicated Revenue”

Structural Deficit Bridge

Presented March 5, 2018



* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

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Baseline assumptions for FY19 Operating Budget (\$73M deficit)

FY19 Baseline Assumptions

Baseline Revenue	<ul style="list-style-type: none">• Fare increase deferred to July 2019 (FY20)• Statutory increases in Sales Tax (BRA) and Local Assessments• Own-source revenue growth from advertising and parking• Increase in income from short-term investments
Baseline Expenses	<ul style="list-style-type: none">• All FY18 strategic hires and other approved hires onboard by FY18E• Headcount held flat in FY19 compared to FY18 (one-in/one-out) except for FMCB approved strategic positions• Only incremental spend related to contractual expenses that automatically escalate (i.e. commuter rail base contract)• Other materials, services, and supplies spend level funded• Assuming legislative relief from \$27M capital employee transfer*
Baseline Debt Service	<ul style="list-style-type: none">• Debt service to increase by \$34M; consistent with FMCB policy• Step up in scheduled principal repayment and potential increases to interest driven by Fed rate hikes• Near-term debt refinancing opportunities have been realized• New long-term issuance no earlier than January 2020

**Baseline deficit (\$73M) assumes legislative relief from \$27M capital transfer*



Path to FY19 Budget incorporates new Service Enhancements

(in millions)

FY19 Deficit (Baseline before Trade-Offs) (\$73.4)

Revenue Opportunities

Corporate Pass Program Initiative	\$8.0
Parking Fee Revision	\$7.0
Advertising Program Expansion	\$6.0
Investment Income	\$4.0

Subtotal Revenue Initiatives \$25.0

Cost Saving Initiatives

Lean Productivity Programs	\$30.0
RIDE Uber/Lyft Pilot Changes	\$1.0
Voluntary Retirement Incentive Program	\$5.0

Subtotal Cost Saving Initiatives \$36.0

Service Enhancements

Committed Enhancements (e.g. Early Morning Bus Pilot)	(\$17.4)
Other Rationalized Enhancements	(\$6.7)

Subtotal Service Enhancements (\$24.1)

FY19 Preliminary Budget (\$36.5)



Revenue and cost saving initiatives to impact deficit

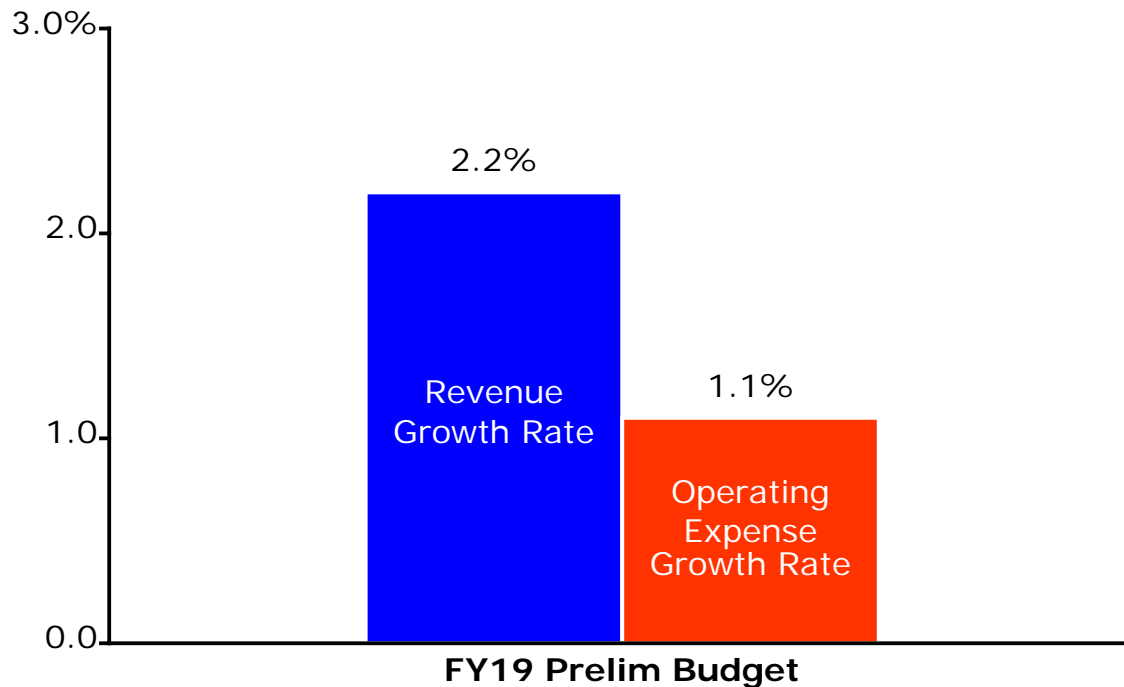
Options for Closing \$73M Budget Gap

Revenue Opportunities (\$25.0M)	<ul style="list-style-type: none"> • Maximize Corporate Pass revenue (\$8M) • Maximize Parking revenue through occupancy-based pricing, increase in citation fees and event / premium rates (\$7M) • Maximize Advertising revenue via expanded digital rollout (\$6M) • Maximize investment income via short-term investments (\$4M)
Cost Saving Initiatives (\$36.0M)	<ul style="list-style-type: none"> • Lean Program Implementation (\$30M) • RIDE Uber/Lyft Pilot Changes (\$1M) • Voluntary Retirement Incentive Program (\$5M) • <i>Capital Employee Transfer (\$27M) – included in baseline</i>
Service Enhancements (\$24.1M)	<ul style="list-style-type: none"> • Chelsea Sliver Line Gateway (\$2M incremental in FY19, \$5M annual) • Early Morning Service Pilot (\$1.5M) • Foxborough Commuter Rail Pilot (\$1M) • Bus Service Project (\$0.3M) • Customer Experience / Communications Resources (\$6.1M) • OSHA Program Implementation (\$6.5M) • Late Night Bus Service (\$2M) • Commuter Rail Locomotive Lease (\$1M) • Additional Bus Operators (\$1.5M) • E&M Investments (\$2.2M)



FY19 preliminary budget maintains required operating expense ratio with revenue growth exceeding expense growth

Operating Expense Ratio



Note: Operating Expense Ratio (OER) is the ratio between the projected FY19 Operating Expense Growth Rate and Revenue Growth Rate. Operating expense growth does not include \$34M in incremental debt service and \$27M relating to the transfer of capital employees to the operating budget. FMCB has been tasked with ensuring Revenue Growth exceeds Operating Expense Growth.



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Board Requested Follow-up Items

Revenue Initiatives

A. Corporate Pass, Parking and Advertising

Cost Saving Initiatives

B. Capital Employee Transfer

C. Voluntary Retirement Incentive Program

D. Lean Productivity Programs

Service Enhancement

E. Commuter Rail Locomotive Lease

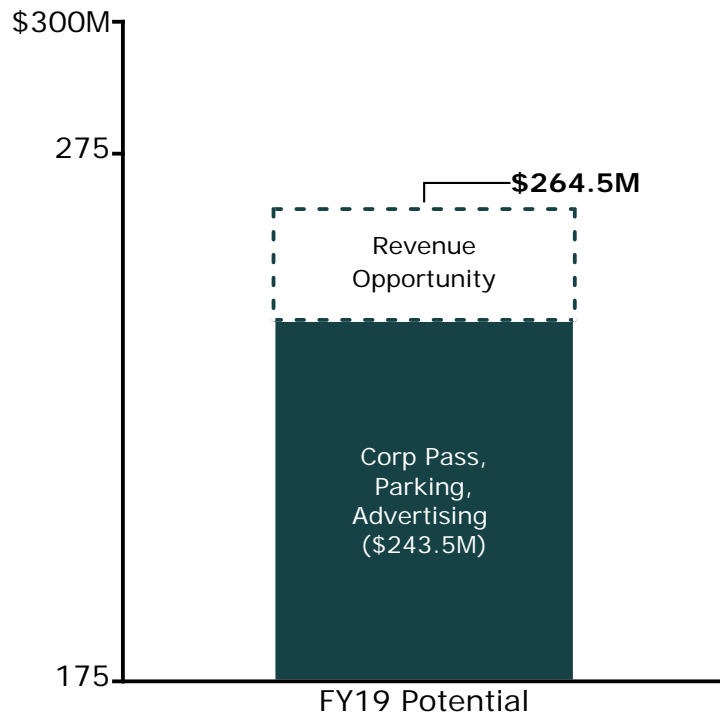
F. Strategic Hires



A. Corporate Pass, Parking and Advertising

Revenue Potential

Incremental Revenue Potential



Opportunity

Incremental Revenue Opportunities:

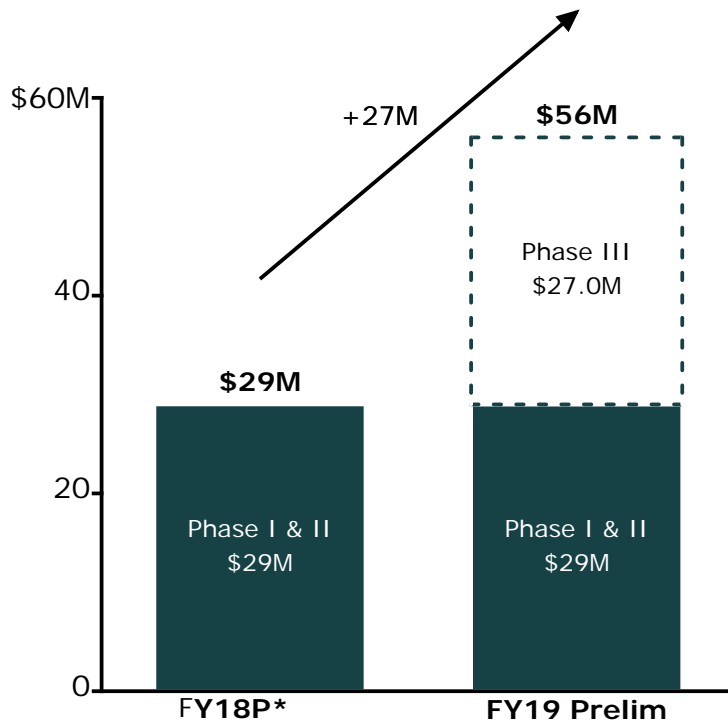
- Corporate Pass Revenue of \$8M with minimal investment (\$400k for headcount and systems)
 - \$8M figure is net of cannibalization of fare vending machine receipts
- Parking Revenue of \$7M across three initiatives
 - Occupancy-based fee increase (\$5M)
 - Citation fee increase (\$1M)
 - Event based and premium parking (\$1M)
- Advertising Revenue of \$6M with expansion beyond current plan for Digital Liveboards and Digital Urban Panels
 - Expansion to include other mediums



B. Capital Employee Transfer

Savings Potential

Capital Employee Transfer
(FY18P to FY19 Preliminary Expense)



Considerations

Operating Budget Impact:

- MBTA Capital Expense Policy to define appropriate uses of capital funds, consistent with Chapter 46 of Acts 2015
- Once adopted, policy would support keeping Phase III employees (\$27M) on capital budget

Draft MBTA Capital Expense Policy (excerpts):

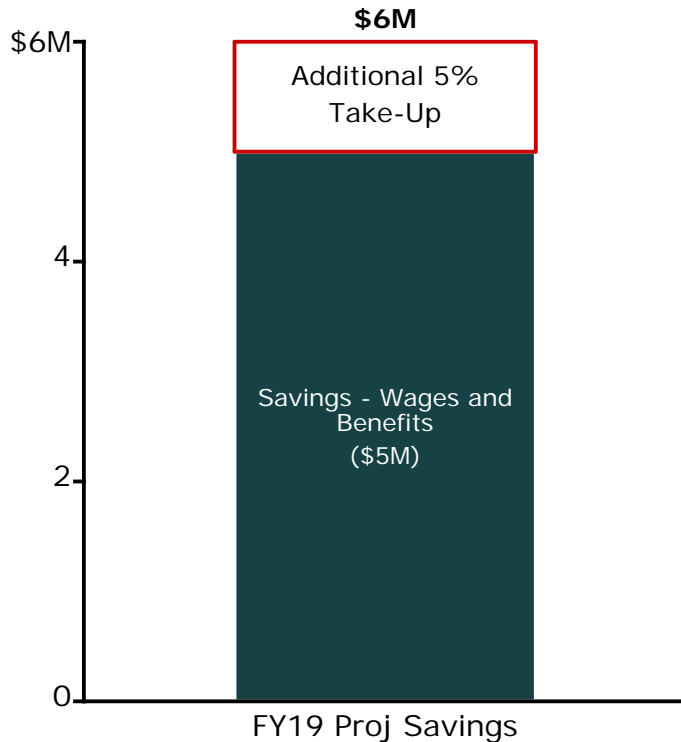
- Costs associated with general repair or routine maintenance activities are not eligible capital expenses
- Costs for maintenance activities that extend the useful life of a capital asset are generally eligible capital expenses
- Costs for maintenance activities that do not extend the useful life of an asset but are not routine may be eligible
- *Draft policy to be presented at an upcoming March FMCB meeting*



C. Voluntary Retirement Incentive Program

Cost Savings Potential

Wage Savings from
VRIP



Assumptions

Potential Impact and Assumptions:

- Enrollment assumption is 20% of eligible retirees across operations and administration
 - › Incremental 5% take-up translates to \$1M savings
- Savings figures (\$5M) represent annual run-rate savings across wages and benefits
- Backfill assumptions are limited to operators (no supervisors, etc.)
- All eligible participants are already retirement eligible

Additional Considerations:

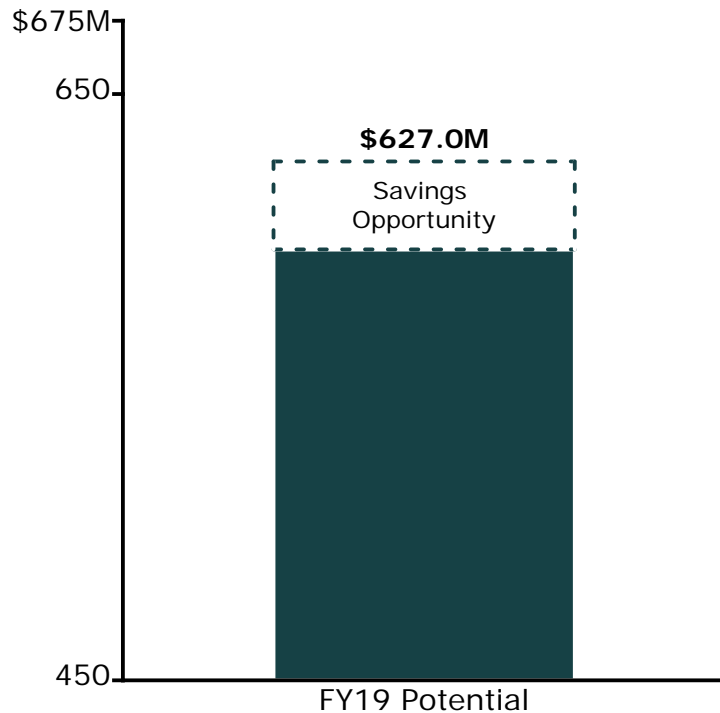
- Timing of VRIP may impact enrollment
- Prior VRIP reduces impact of program in FY19 due to new workforce demographics and smaller pool of eligible employees



D. Lean Productivity Programs

Savings Potential

Aggregate Budget for Focus Departments



Considerations

Focus of Lean Productivity Programs:

- Bus Operations (Operators and Maintenance)
- Commuter Rail Supervision
- Everett Main Repair
- Rail Operations and Maintenance
- Transit Facilities Maintenance
- Administrative / Support

Savings to be achieved through:

- Productivity gains and resulting department right-sizing
- Reduction in materials and services spend

Additional value generated by:

- Improvements in quality of work
- Enhanced employee engagement
- Better service provided to end customers



D. Lean Productivity Programs (cont.)

DEPARTMENT	FY18 PROJECTION*	FY19 SAVINGS TARGET	FY19 Prelim Budget
1) Bus Operations (Operators & Maintenance)	\$222.0M	(\$10.6M)	\$211.4M
2) Commuter Rail Supervision	\$4.0M	(\$0.2M)	\$3.8M
3) Everett Main Repair	\$31.0M	(\$1.5M)	\$29.5M
4) Rail Operations & Maintenance	\$258.0M	(\$12.3M)	\$245.7M
5) Transit Facilities Maintenance	\$41.0M	(\$2.0M)	\$39.0M
6) Administrative/Support**	\$71.0M	(\$3.4M)	\$67.6M
Total	\$627.0M	(\$30M)	\$597.0M

Note: FY18 Projection comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

** FY18 Projection for Administrative/Support increasing due to expiration of Jet Fuel credits



E. Commuter Rail Locomotive Lease

Net Cost of Lease

Cost Components

Lease Payment	\$2.4M
Maintenance (by OEM)	\$0.8M

Savings Potential

Keolis Service Change	(\$2.2M)
Fuel Savings	(\$0.0M)

Net Cost of Lease	\$1.0M
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Considerations

Lease Terms:

- 5 locomotives available
- 4-year short-term lease, with two 1-year options
- Cost \$1,307 per locomotive per day

Maintenance Terms:

- Performed by Original Equipment Manufacturer (OEM)
 - › 45-day, 92-day, 1-year and 4-year preventative maintenance (required by Federal Railroad Administration)
- OEM maintenance costs less than Keolis contracted cost per locomotive (Keolis work not age-based)
- Opportunity to amend Keolis Fleet Size Service Change

Other Considerations:

- Positive Train Control (PTC) technology not current installed on trains (capital expense)
- Limited to "North Side" operation until PTC installed



F. Strategic Hires and Headcount

FY18 Budget:

- 56 Strategic Operations Hires were approved by FMCB during FY18 budget process
 - › 54 of 56 hires have been completed
- Additional positions have been approved across operations and administration but remain unfilled
 - › **HR to present a deep dive into new positions at March 19, 2018 FMCB meeting**
- All positions expected to be filled by June 30, 2018
- Headcount held flat in FY19 (one-in/one-out) except for FMCB approved strategic positions

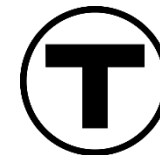
FY19 strategic hiring to include:

- › Customer Experience, Communications and Operational CFOs
- › Bus Service Project
- › Emergency Response, Asset Management and Quality Assurance
- › Bus Operators
- › OSHA Implementation



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FY19 Preliminary Itemized Operating Budget

	(\$M)	FY18 BUDGET RECAST	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE
REVENUES	Operating Revenues	\$755.9	\$773.0	\$17.1	2.3%
	Non-Operating Revenues	\$1,221.1	\$1,247.8	\$26.7	2.2%
	Total Revenues	\$1,977.0	\$2,020.8	\$43.8	2.2%
EXPENSES	Wages, Benefits and Payroll Taxes	\$764.0	\$771.8	\$7.8	1.0%
	Non-Wage	\$781.5	\$789.7	\$8.2	1.0%
	Operating Expenses	\$1,545.5	\$1,561.5	\$15.0	1.0%
	Debt Service	\$462.7	\$495.9	\$33.2	7.2%
	Total Expenses	\$2,008.2	\$2,057.4	\$49.2	2.5%
Structural Deficit		(\$31.2)	(\$36.5)	\$5.3	17.0%

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Path to FY19 Budget incorporates Service Enhancements

(in millions)

FY19 Deficit (Baseline before Trade-Offs) (\$73.4)

Revenue Opportunities

Corporate Pass Program Initiative	\$8.0
Parking Fee Revision	\$7.0
Advertising Program Expansion	\$6.0
Investment Income	\$4.0

Subtotal Revenue Enhancements \$25.0

Cost Saving Initiatives

Lean Productivity Programs	\$30.0
RIDE Uber/Lyft Pilot Changes	\$1.0
Voluntary Retirement Incentive Program	\$5.0

Subtotal Cost Saving Enhancements \$36.0

Service Enhancements

Committed Enhancements (e.g. Early Morning Bus Pilot)	(\$17.4)
Other Rationalized Enhancements	(\$6.7)

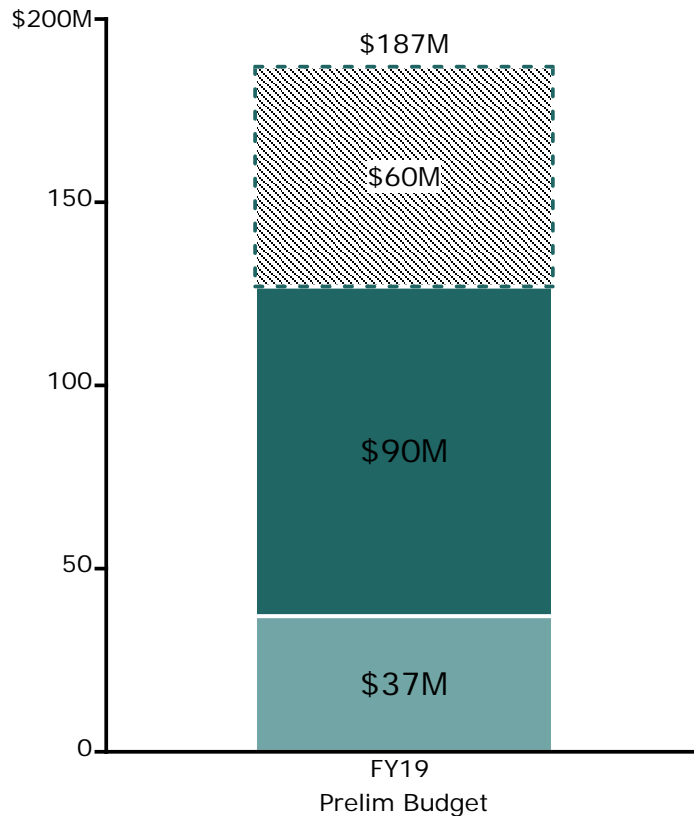
Subtotal Service Enhancements (\$24.1)

FY19 Preliminary Budget (\$36.5)



FY19 Additional Contract Assistance Will Be Used to Support Capital Investment

Additional Contract Assistance



- Governor's budget recommends MBTA receive a total of \$187M in FY19 Additional Contract Assistance
- \$187M matches the total commitment in FY16, FY17 & FY18
- MBTA will receive the \$187M in two segments:
 - \$127M in direct assistance to the operating budget to cover structural deficit
 - \$60M for FY18 state capital budget for the Capital Maintenance Lock Box
- MBTA management believes the \$127M in operating fund assistance will be sufficient to cover any operating budget deficit in FY19
- **MBTA goal in FY19 is to transfer \$90M of operating funds to Capital Maintenance Lockbox**
 - **Implies a Structural Deficit of no more than \$37M**



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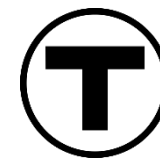


FY19 revenue from all sources up 2.2% over FY18P

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
OPERATING	Fares, all modes	\$667.4	\$671.4	\$4.1	0.6%	• Corp Pass up \$8M
	Own-Source	\$88.6	\$101.6	\$13.0	14.7%	• Advertising up \$6M • Parking up \$7M
	Operating	\$755.9	\$773.0	\$17.1	2.3%	
NON-OPERATING	Dedicated Sales Tax	\$1,003.0	\$1,032.1	\$29.1	2.9%	• Inflation adjustment per statute
	Dedicated Local Assessment	\$166.5	\$170.1	\$3.6	2.2%	• Inflation adjustment per statute
	Other	\$51.7	\$45.7	(\$6.0)	-11.6%	• Exclude FY18 one-time revenues
	Non-Operating	\$1,221.1	\$1,247.8	\$26.7	2.2%	
Total Revenues		\$1,977.0	\$2,020.8	\$43.8	2.2%	

* FY18P comprised of 7 months (Jul17 – Jan18) actual results and 5 months (Feb18 – Jun18) projected results

Draft for Discussion & Policy Purposes Only



Wages and Benefits

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
WAGES	Regular Wages	\$454.0	\$459.1	(\$5.1)	-1.2%	• Lean Productivity Programs
	Overtime	\$48.9	\$46.9	\$2.0	4.7%	• Continued management focus
	Wages	\$502.9	\$506.0	(\$3.1)	-0.6%	
BENEFITS AND TAXES	Pension ^ *	\$92.7	\$96.9	(\$4.3)	-4.8%	• Forecast ARC
	Health	\$104.6	\$104.6	\$0.0	0.0%	• Average GIC growth of 3.8%, offset by lower headcount
	<i>Retiree Health</i>	<i>\$44.0</i>	<i>\$44.0</i>	<i>\$0.0</i>	<i>0.0%</i>	• Average GIC growth of 3.8%
	Health & Welfare Fund	\$10.9	\$10.9	\$0.0	-0.2%	
	Other Fringes	\$13.1	\$13.1	(\$0.0)	0.0%	• Driven by regular wages
	Payroll Taxes	\$39.9	\$40.2	(\$0.3)	-0.7%	• Driven by regular wages
	Benefits and taxes	\$261.1	\$265.7	(\$4.6)	-1.7%	
Total Wages, Benefits and Taxes		\$764.0	\$771.8	(\$7.7)	-1.0%	

^FY18 pension expense is an estimate and will not be finalized until MBTRF and its actuaries complete their 12/2017 investment valuation.

*Pension includes Main Fund, Police, Deferred Compensation Supplement, 401(a) MBTA Match



Non-Wage Operating Expenses (pp. 1/2)

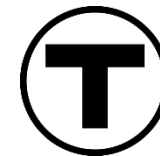
	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
MATERIALS AND SERVICES	Materials	\$49.3	\$43.3	\$6.0	13.0%	• LEAN Productivity Programs
	Services	\$115.9	\$108.5	\$7.4	5.8%	• Flexible contracts
	Utilities	\$43.6	\$43.6	\$0.0	0.0%	• Level-funded due to long term contracts
	Fuel	\$16.6	\$16.8	\$0.0	0.0%	• Level-funded due to long term contracts
	Contract Cleaning	\$21.9	\$23.9	(\$2.0)	-8.4%	• Contractual
	Uniform	\$1.7	\$1.7	\$0.0	0.0%	• Stable headcount and prices
	Materials and Services	\$249.0	\$237.6	\$11.4	4.6%	
INSURANCE	Insurance	\$11.1	\$11.1	\$0.30	0.0%	

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Non-Wage Operating Expenses (pp. 2/2)

	(\$M)	FY18 BUDGET PROJ	FY19 BUDGET PRELIM.	\$ VARIANCE	% VARIANCE	EXPLANATION
COMMUTER RAIL	Fixed Price	\$320.5	\$327.3	(\$6.8)	-2.1%	• Annual contract escalation
	Extra Work and Services	\$37.0	\$44.0	(\$7.0)	-18.9%	• Capital work allocated to capital budget
	Fuel	\$26.4	\$26.4	\$0.0	0.0%	
	PRIAA	\$16.0	\$9.3	\$6.7	71.5%	• New contractual expense
	Commuter Rail	\$399.9	\$407.0	(\$7.2)	-1.8%	
LOCAL SERVICE	THE RIDE	\$97.8	\$110.1	(\$12.4)	-13.3%	• Call/dispatch center and pilots
	Ferry	\$14.0	\$14.0	\$0.0	0.0%	
	LSS Other	\$2.4	\$2.4	\$0.0	0.0%	
	Local Service	\$114.2	\$126.6	(\$12.4)	-10.8%	
OTHER	Financial Service Charges	\$7.3	\$7.3	\$0.0	0.0%	
Non-Wage Expenses:		\$781.5	\$789.7	(\$8.1)	-1.0%	



Debt service to increase in Fiscal 2019

	<div>(\$M)</div>	<div>FY18 BUDGET PROJ</div>	<div>FY19 BUDGET PRELIM.</div>	<div>\$ VARIANCE</div>	<div>% VARIANCE</div>	<div>EXPLANATION</div>
DEBT SERVICE	Interest	\$216.6	\$230.0	(\$13.3)	-6.4%	• Variable interest rates increasing
	Principal	\$244.8	\$265.9	(\$21.1)	-8.8%	• Per Amortization Scheduled
	Lease	\$1.2	\$0.0	\$1.2	42.3%	• All leases pre-paid
	Debt Service	\$462.7	\$495.9	(\$33.2)	-7.2%	

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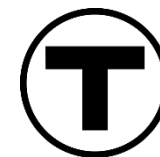
Additional Initiative Details – Revenue

TYPE	OPTION	DESCRIPTION	Deficit Impact
Committed (Revenue)	Expansion of Corporate Pass Program	Drive awareness and actions for Corporate Program (\$190M revenue base) through increased advertising and collateral development with \$400k investment	↓
Pending FMCB Discussion (Revenue)	Parking Revenue Program	Introduce new rate structures: System-Wide Repricing – Flat Increase, System-Wide Repricing– Occupancy, Increase Mailed Citation Surcharge, Event Pricing & Premium Rates	↓
Not Recommended in FY19	Potential Fare Increase (Jan19)	As part of the FY19 budget making process, the FMCB must consider every opportunity to produce savings and grow the MBTA's own source revenue including a fare increase; any decision for a fare increase would involve a public involvement process and equity analysis	↓



Additional Initiative Details – Cost Savings

TYPE	OPTION	DESCRIPTION	Deficit Impact
Committed (Savings)	LEAN Productivity Programs	The impact of this multi-pronged program will be improved quality, productivity, employee engagement as well as decreased costs	↓
	RIDE On-Demand Pilot Uber/Lyft	Pilot amendments should include: 1) Increase cost per trip; 2) Require ridesharing to match RIDE practices; 3) Simplify and increase pilot trips and 4) Integrate pilot into TRAC	↓
Pending FMCB Discussion (Savings)	Voluntary Retirement Incentive Program (Voluntary Retirement Incentive Program)	Implement a Voluntary Retirement Incentive Program plan for retirement-eligible employees similar to the plan offered in FY17; net result was reduction of 180 positions	↓
	Capital Employee Transfer	Treatment of budgeted Capital Delivery headcount in the FY19 budget (i.e., favorable treatment requires legislative relief)	↓
	Expiring Union CBAs	Renegotiate 12 collective bargaining agreements expiring in FY18 (6) & FY19 (6)	↓



Additional Initiative Details – Committed Service Enhancements

TYPE	OPTION	DESCRIPTION	Deficit Impact
Committed (Costs)	Chelsea Silver Line Gateway	Bus rapid transit connecting Chelsea and East Boston (via Blue Line's Airport Station) with South Station and Seaport District in Boston	↑
	Early Morning Service (Pilot)	Adds additional earlier trips on crowded first trips of the day on 10 bus routes	↑
	Foxborough Commuter Rail (Pilot)	Full-time rail service from Gillette Stadium to South Station by way of the Fairmount Line	↑
	Bus Service Project (Policy & Oversight)	Resources to support (1) coordination between capital delivery, government affairs, and operations and (2) vendor oversight	↑
	Customer Experience/ Communications	Increased focus on customer experience and communication. Hire Chief Customer Experience Officer, additional staff and technology	↑
	OSHA Program Implementation	Employee Training and Capital Investments including resources to assist with project management, oversight and administration	↑



Additional Initiative Details – Service Enhancements

TYPE	OPTION	DESCRIPTION	Deficit Impact
Pending FMCB Discussion (Expense)	Late-Night Bus Service (Pilot Pending)	Vehicles, drivers and supervision to create additional service for MBTA bus customers	↑
	Commuter Rail Locomotive Lease (5 Locos for 4 Years)	Through a partnership, 5 locomotives are available to Commuter Rail for a 4 year, short-term lease, with two 1-year options; price includes maintenance	↑
	Additional Bus Operators	Increased headcount to cover insufficient run-time, recovery, contractually provided leave time (vacation and absences)	↑
	Rush-Hour Service Improvements (E&M)	Increased Reliability for Emergency Responses that impact the safety of the public, MBTA customers, or MBTA workforce, specifically during rush-hour	↑
	Asset Management (E&M)	Mechanical, civil, track, electrical, structural engineers to support capital projects by the Asset Planning and Training team	↑
	Quality Assurance (E&M)	Improved Quality Assurance of departmental testing and inspection of critical infrastructure	↑